

Annuity Purchases

An annuity is a complex financial product with widely varying fees, costs, and features. Make sure you understand how the annuity works, what fees and charges you will pay, and all terms and conditions of the contract. Invest only what you can afford to “tie-up” and make sure it suits both your investment needs and risk tolerance. Comparison shop before you buy. Discuss the purchase with someone you trust in addition to the person selling you the annuity.

- **“Guaranteed” annuities are scams!** Unlike certificates of deposits (CDs), annuities are NOT guaranteed by any government agency. Annuities are only as safe as the insurance company that sells them. Check out the financial strength of the company at www.insurance.ca.gov **BEFORE** you purchase any annuity.
 - **“Surrender charges” are fees for withdrawing money before the maturity date.** What are the surrender charges and how long is the surrender period? (Five, ten, even twenty years is not uncommon. Can you afford to have money inaccessible that long?)
 - **Watch out for “introductory” or “teaser” interest rates (usually good for one year or less)** – these rates may be significantly higher the first year than for the following years.
 - **“Degree of risk” varies depending on the type of annuity.** Is the annuity fixed, variable or indexed? Understand the risks for the annuity you are buying – for example, some annuities are tied to the stock market and involve a high degree of risk.
 - **Commissions for annuities may be so high that the agent will want to sell you a specific product even if it isn’t the best investment tool for you.** Find out the amount of the agent’s commission. Beware of agents who don’t want to answer this question!
 - **Cashing in one annuity to purchase another may not be in your best interest.** You may be giving up benefits in the older annuity that the replacement won’t have. Make sure the benefits outweigh all the costs, and that the salesperson is not the prime beneficiary.
 - **Be aware that some, but not all, annuities provide a death benefit.** Compare death benefits and make sure you know what will happen to the proceeds upon your death.
 - **NEVER meet with a salesperson alone in your home and don’t rush into filling out or signing documents.** NEVER purchase an annuity to try to qualify for Medi-Cal.
 - **California Law gives you a 30-day “free look” so you can review an annuity or life insurance purchase with trusted friends, relatives, or professionals.** Return the contract if you decide it isn’t right for you!
 - **Other questions to ask before you buy an annuity:** Does this meet **my** needs? What liquid assets (cash) will I need in the future? What are the tax implications?
- To check on an agent and insurance company status...**
Contact the
California Department of Insurance
Consumer Hotline 1-800-927-HELP
(1-800-927-4357)